
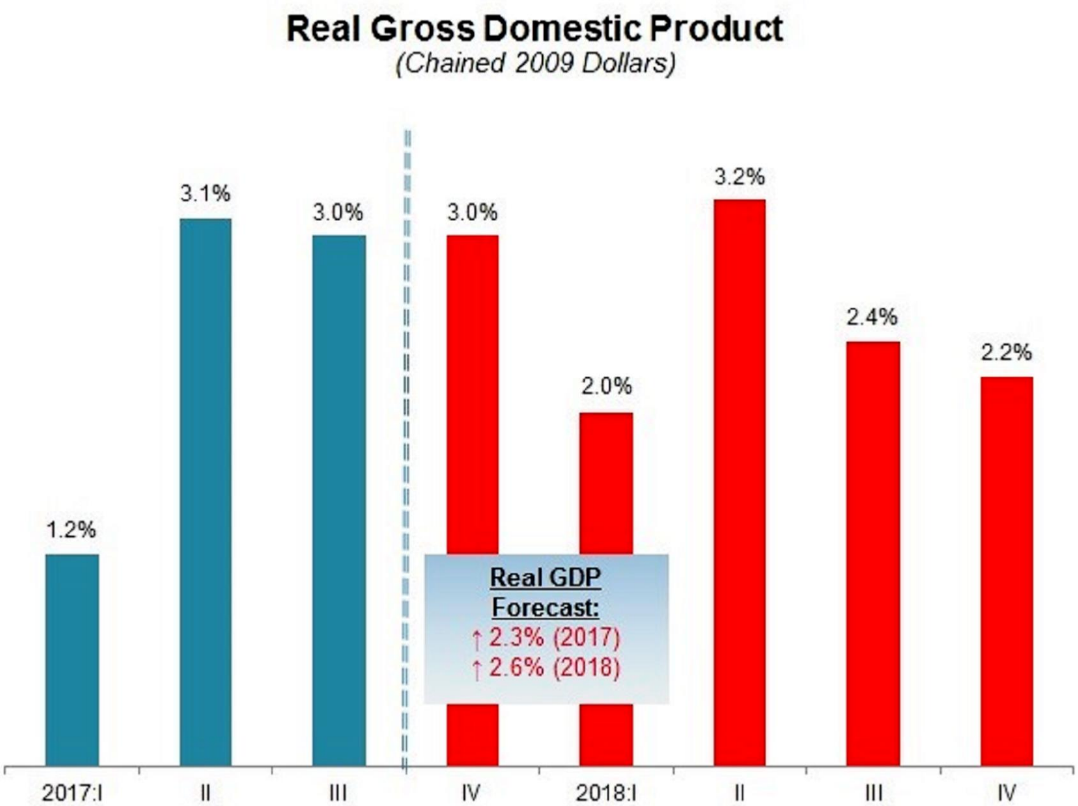


The Bureau of Economic Analysis reported that the U.S. economy grew by an annualized 3.0 percent in the third quarter, extending the 3.1 percent gain in the second quarter. This was slightly better than the predicted growth rate of 2.6 percent-a sign that even with the recent hurricanes, the U.S. economy continues to expand at a decent clip. Strength in consumer and business spending, including inventories, and net exports boosted the third-quarter data. For 2017 as a whole, I am predicting real GDP growth of 2.3 percent, with 3.0 percent growth for the current fourth quarter. This is a slight improvement from the 2.1 percent average growth rate since the Great Recession, but I am also estimating 2.6 percent growth for 2018. In addition, I continue to believe there is upward potential in the forecast, especially for next year and beyond, if pro-growth policies are enacted.

The data on manufacturing activity were also uplifting. For instance, new durable goods orders jumped 2.2 percent in September, extending the 2.0 percent gain in August. The data have been highly volatile over the past three months, mostly on large swings in nondefense aircraft and parts orders, which rose 31.5 percent in September. Excluding transportation equipment, new durable goods orders increased 0.7 percent in this report, the same pace as in August. New durable goods orders have trended generally in the right direction across the past 12 months, having increased by a very healthy 8.3 percent since September 2016, or excluding transportation equipment, the year-over-year gain was 7.5 percent. Durable goods shipments were also positive, up 1.0 percent in September, with a healthy 7.0 percent gain year-over-year.

At the same time, the IHS Markit Flash U.S. Manufacturing PMI rose to its highest point since January, up from 53.1 in September to 54.5 in October. It is hoped this is a sign that the lull in the spring and summer months has stabilized. Manufacturers in the United States reported accelerating rates of growth for new orders, output, exports and employment, with the hiring measure having its best reading since June 2015. Regionally, manufacturing activity continued to reflect progress in both the Kansas City and Richmond Federal Reserve Bank districts. The Kansas City Federal Reserve's composite index of general business conditions expanded at its fastest pace since March 2011, and respondents cited a number of challenges in finding qualified labor as employment markets have tightened significantly in the area. In contrast, activity eased slightly in the Richmond Federal Reserve's region, but the data largely reflect notable progress over the past year. In both surveys, while manufacturers feel very optimistic about new orders and shipments over the next six months, they expect pricing pressures to accelerate somewhat.

Internationally, Europe continued to be a bright spot in the global economy. The IHS Markit Flash Eurozone Manufacturing PMI remained robust in preliminary October data, with activity in the sector at an 80-month high. In addition to strengthening new orders and exports, employment grew at its fastest rate in the 20-year history of the survey. In addition to data for Europe as a whole, IHS Markit also released preliminary figures for France and Germany, both of which indicated robust expansions for manufacturers. As a sign of just how much things have turned around in France of late, manufacturing activity expanded at its best pace since April 2011 on stronger growth across the board. To put that in perspective, the headline French number contracted as recently as September 2016.

Beyond those measures, the latest data on consumer confidence and new home sales also showed encouraging signs. The Index of Consumer Sentiment from the University of Michigan and Thomson Reuters rose to a level not seen since January 2004, with Americans more upbeat in their outlook, boosted by sizable improvements in their personal finances. Meanwhile, new home sales increased to a 10-year high in September. New residential sales jumped from an annualized 561,000 units in August to 667,000 units in September, an increase of 18.9 percent and the best reading since October 2007. Sales of new single-family homes grew in every region of the country, with the largest gains in the Midwest and South. With the steep increase in the latest figures, new home sales have risen 17.0 percent since the 570,000 pace in September 2016.

This week will be another busy one on the economic indicator front, and analysts will be looking for continued signs of strength in the manufacturing sector, both in terms of sentiment and job growth. The Institute for Supply Management's Manufacturing Purchasing Managers' Index has reported robust expansions in new orders, output and employment in recent months, and similar results are expected in the October index, though it might show some softness due to the recent hurricanes. The Dallas Federal Reserve Bank's latest report should show something similar. The job market has tightened significantly year to date, with healthy employment growth, though there was slightly lower activity in September related to the recent storms. Look for rebounds in employment in October.

Other highlights for this week include new data on construction spending, consumer confidence, employment costs, factory orders and shipments, international trade, personal income and spending and productivity and costs.

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## Economic Indicators

**Last Week's Indicators:**
(Summaries Appear Below)

**Monday, October 23**
Chicago Fed National Activity Index

**Tuesday, October 24**
IHS Markit Flash Manufacturing PMIs for the United States and Eurozone
Richmond Fed Manufacturing Survey

**Wednesday, October 25**
Durable Goods Orders and Shipments
New Home Sales

**Thursday, October 26**
Kansas City Fed Manufacturing Survey

**Friday, October 27**
Gross Domestic Product
University of Michigan Consumer Sentiment (Revision)

**This Week's Indicators:**

**Monday, October 30**
Dallas Fed Manufacturing Survey
Personal Income and Spending

**Tuesday, October 31**
Conference Board Consumer Confidence
Employment Cost Index

**Wednesday, November 1**
ADP National Employment Report
Construction Spending
FOMC Monetary Policy Statement
ISM Manufacturing Purchasing Managers' Index

**Thursday, November 2**
GDP by Industry
Productivity and Costs

**Friday, November 3**
BLS National Employment Report
Factory Orders and Shipments
International Trade Report

## Summaries for Last Week`s Economic Indicators

**Chicago Fed National Activity Index**

The Chicago Federal Reserve Bank reported that growth in the U.S. economy rebounded in September after weaknesses in both July and August. The National Activity Index (NAI) increased from -0.37 in August to 0.17 in September. The data have been highly volatile year to date, but the return into positive territory was encouraging. Index readings below zero suggest the economy is growing below its historical trend, with positive readings indicating the opposite. With that said, the three-month moving average remained unchanged at -0.16, suggesting that growth continued to be below its historical trend and softer than desired.

Note that the recent hurricanes had a negative impact in August and September, which could indicate better data in the months ahead as the effected communities rebuild and replace much of the damage. Along those lines, production-related indicators added 0.10 to the headline index in September, with manufacturing production edging higher in the latest data after falling in the prior two months. Nonetheless, the Federal Reserve estimated that hurricane-related reductions in activity subtracted 0.25 percentage points from industrial production growth in the month. Employment and sales also provided small positive contributions to the NAI in September.

### Durable Goods Orders and Shipments

The Census Bureau reported that growth in new durable goods orders jumped 2.2 percent in September, extending the 2.0 percent gain in August. The data have been highly volatile over the past three months, mostly on large swings in nondefense aircraft and parts orders, which rose 31.5 percent in September. Excluding transportation equipment, new durable goods orders increased 0.7 percent in this report, the same pace as in August. New durable goods orders have trended generally in the right direction across the past 12 months, having increased by a very healthy 8.3 percent since September 2016, or excluding transportation equipment, the year-over-year gain was 7.5 percent.

Looking more closely at the various durable goods sectors in September, the data were mixed but higher on net. Sales increased for fabricated metal products (up 1.7 percent), computers and electronic products (up 1.6 percent), other durable goods (up 0.7 percent) and motor vehicles and parts (up 0.1 percent). In contrast, orders declined for machinery (down 0.2 percent), electrical equipment, appliances and components (down 0.1 percent) and primary metals (down 0.1 percent). The bottom line is that new orders for core capital goods (or nondefense capital goods excluding aircraft) increased 1.3 percent in September. This figure is often seen as a proxy for capital spending in the U.S. economy. On a year-over-year basis, core capital goods have risen 7.8 percent, up from $61.2 billion in September 2016 to $65.9 billion in this release.

Meanwhile, durable goods shipments rose 1.0 percent in September. Much like the new orders data described above, the long-term picture continues to be quite favorable. Since September 2016, durable goods shipments have risen at decent rates, up 5.0 percent, with year-over-year growth of 6.7 percent when excluding transportation equipment shipments. In addition, shipments of core capital goods have also improved mightily over the past 12 months, up 7.0 percent year-over-year.

### Gross Domestic Product

The Bureau of Economic Analysis reported that the U.S. economy grew by an annualized 3.0 percent in the third quarter, extending the 3.1 percent gain in the second quarter. This was slightly better than the predicted growth rate of 2.6 percent-a sign that even with the recent hurricanes, the U.S. economy continues to expand at a decent clip. Strength in consumer and business spending, including inventories, and net exports boosted the third-quarter data. For 2017 as a whole, I am predicting real GDP growth of 2.3 percent, with 3.0 percent growth for the current fourth quarter. This is a slight improvement from the 2.1 percent average growth rate since the Great Recession, but I am also estimating 2.6 percent growth for 2018. In addition, I continue to believe there is upward potential in the forecast, especially for next year and beyond, if pro-growth policies are enacted.

Looking at the underlying data, personal consumption expenditures slowed a little from 3.3 percent annual growth in the second quarter to 2.4 percent in the third quarter. However, durable goods spending was a bright spot across the past two reports, up 7.6 percent and 8.3 percent in the second and third quarters, respectively. This included the best numbers for motor vehicles and parts in one year. Overall, personal spending contributed 1.62 percentage points to the top-line growth figure of 3.0 percent in the third quarter, including 0.92 percent from goods spending. That was off from a contribution of 2.24 percentage points in the second quarter, but a fair share of that easing came from pullbacks related to the recent hurricanes.

Weather also likely played a factor in decelerating nonresidential fixed investment spending, which softened from an annualized 6.7 percent growth rate in the second quarter to 3.9 percent in the third quarter. Spending on structures declined 5.2 percent at the annual rate-the source of much of that easing. In contrast, investments in equipment remained robust, up 8.6 percent, which changed little from the 8.8 percent growth figure in the prior release. One of the larger positives among business spending included inventories, which contributed 0.73 percentage points to real GDP in the third quarter-its best reading so far in 2017. Beyond those figures, residential investment continued to be weak, subtracting 0.24 percent from headline growth, on challenges in the housing market. In total, gross private domestic investment, which includes residential and nonresidential investment and private inventory spending, added 0.98 percentage points to the top line in the third quarter, improving from its 0.64 percent contribution in the second quarter.

Meanwhile, the international economy has also made notable progress year to date, with global trade making its best contribution to real GDP growth since the end of 2013. With that said, goods exports grew just 1.4 percent in the third quarter, down from 2.2 percent in the second quarter. Goods imports, however, fell 0.5 percent in this release, the first decline since the first quarter of 2016. The export of services rose 4.1 percent in the latest data. Therefore, net exports added 0.41 percentage points to real GDP growth.

### IHS Markit Flash Manufacturing PMIs for the United States and Eurozone

The IHS Markit Flash Eurozone Manufacturing PMI remained robust in preliminary October data, with activity in the sector at an 80-month high. The headline index rose from 58.1 in September to 58.6 in October, a level not seen since February 2011, buoyed by strengthening new orders (up from 58.5 to 58.7), exports (up from 57.3 to 57.8) and employment (up from 56.5 to 57.6). It was the fastest rate of job growth in the 20-year history of the survey. At the same time, output (down from 59.2 to 58.7) and future output (down from 67.1 to 66.6) continued to expand at very healthy paces despite easing slightly in this release. The forward-looking index was not far from June's reading (67.4), which was its highest point since that question was introduced in mid-2012.

In addition to data for Europe as a whole, IHS Markit also released preliminary figures for France (up from 56.1 to 56.7) and Germany (down from 60.6 to 60.5), both of which were encouraging. As a sign of just how much things have turned around in France of late, manufacturing activity expanded at its best pace since April 2011 on stronger growth across the board. To put that figure in perspective, the headline French number contracted as recently as September 2016.

Meanwhile, the IHS Markit Flash U.S. Manufacturing PMI rose to its highest point since January, up from 53.1 in September to 54.5 in October. It is hoped this is a sign that the lull in the spring and summer months has stabilized. Manufacturers in the United States reported accelerating rates of growth for new orders (up from 52.8 to 54.5), output (up from 52.4 to 54.5), exports (up from 50.6 to 53.2) and employment (up from 54.3 to 55.1). As with the Eurozone data, job growth among manufacturers in the United States remained a bright spot, with that measure having its best reading since June 2015. The exports index also showed promising signs, with international demand increasing at a 13-month high. In addition, survey respondents continued to be optimistic about future output (up from 66.6 to 67.7).

Final data on these surveys will be released on November 1 (United States) and November 2 (Eurozone).

### Kansas City Fed Manufacturing Survey

The Kansas City Federal Reserve Bank reported that manufacturing activity expanded at a 79-month high in the latest survey data. The composite index of general business conditions rose from 17 in September to 23 in October, a level not seen since March 2011 and a sign that sentiment has continued to strengthen since the spring. The higher figure in October came largely from a jump in those saying that new orders (up from 10 to 27) and employment (up from 18 to 21) had both accelerated, with the hiring figure also at a 79-month high. The sample comments tended to echo the challenge of finding talent. One respondent said, "Qualified, available and reliable labor (primarily hourly) continues to be the number-one issue negatively impacting our potential growth."

Production (down from 22 to 20), shipments (unchanged at 25) and employment (up from 18 to 21) indicated robust expansions for the month as well, and exports (up from 6 to 8) continued to grow modestly. All of these data points reflect a manufacturing sector in the district that has improved significantly, with the composite measure positive for the 14th straight month.

Meanwhile, manufacturers continued to be optimistic about the next six months. The forward-looking composite index increased from 26 to 32, its highest point since March. Sixty-one percent of respondents expect production and shipments to rise in the coming months, with 55 percent forecasting higher sales, 47 percent predicting more employment and 37 percent anticipating additional capital spending. In addition, more than half of business leaders also predict a pickup in raw material costs over the next six months, consistent with the acceleration in input prices seen in other measures.

### New Home Sales

The Census Bureau and the Department of Housing and Urban Development reported that new home salesrose to a 10-year high in September. New residential sales jumped from an annualized 561,000 units in August to 667,000 units in September, an increase of 18.9 percent and the best reading since October 2007. Sales of new single-family homes grew in every region of the country, with the largest gains in the Midwest and South. With the steep increase in the latest figures, new home sales have risen 17.0 percent since the 570,000 pace in September 2016.

With strong sales growth, inventories of new homes for sale tightened considerably for the month. In September, the number of months of supply on the market fell from 6.0 to 5.0, a six-month low. The average sales price was $385,200 in September, up 5.2 percent from $366,100 one year ago.

### Richmond Fed Manufacturing Survey

The Richmond Federal Reserve Bank reported that manufacturing activity in its district pulled back slightly in October, even as it continued to report expanding levels of activity overall. The composite index of general business activity declined from 19 in September-a seven-month high-to 12 in October, its lowest point since January. Even with some easing, however, the data remained encouraging. To illustrate this, the headline index has averaged 13.8 year to date in 2017, well above the average of 0.6 during the same 10-month time period in 2016. With that said, many of the key measures in October decelerated, including new orders (down from 20 to 17), shipments (down from 22 to 9), capacity utilization (down from 16 to 7), employment (down from 15 to 10) and the average workweek (down from 16 to 8).

Despite the softer current numbers, manufacturing respondents in the Richmond Federal Reserve's region felt very optimistic in their outlook for the next six months. Forward-looking measures for new orders (up from 42 to 45), shipments (up from 43 to 50), capacity utilization (up from 36 to 40) and capital expenditures (up from 18 to 27) all rose more strongly in this survey, with all indicating hardy expansions for the coming months. Expected hiring (down from 33 to 25) and the average workweek (down from 25 to 13) slowed a little in October but both continued to be promising.

Meanwhile, manufacturers in the district had mixed feelings about current price trends. Respondents said prices paid for raw materials decreased slightly from 1.82 percent at the annual rate in September to 1.77 percent in October. That is up from 0.93 percent in May but down from 2.56 percent in March. Raw material prices are expected to grow 1.95 percent at the annual rate six months from now, up from 1.93 percent in September and the fastest pace since February.

### University of Michigan Consumer Sentiment (Revision)

The University of Michigan and Thomson Reuters reported that consumer confidence soared in October, rising to its highest point since January 2004. The Index of Consumer Sentiment jumped from 95.1 in September to 100.7 in October. While this was off slightly from the preliminary estimate of 101.1, the overall interpretations remain the same, with consumers upbeat in their outlook. Richard Curtin, the Surveys of Consumers chief economist, added, "Personal finances were judged near all-time record favorable levels due to gains in household incomes as well as decade highs in home and stock values." These types of surveys often swing on pocketbook issues, and improved finances are clearly helping the bottom line in this report.

Overall, consumers felt optimistic about the economy and their spending over the next six months. Indices for current (up from 111.7 to 116.5) and future (up from 84.4 to 90.5) conditions rose sharply higher in the latest figures. The data are consistent with 2.6 percent growth at the annual rate for consumer spending through mid-2018.



### Questions or comments?

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